REPORT OF EXAMINATION
OF THE

CALIFORNIA LIFE AND HEALTH INSURANCE GUARANTEE ASSOCIATION

AS OF
JUNE 30, 2005

Filed October 27, 2006

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Los Angeles, California
July 14, 2006

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, a limited scope examination was made of the

CALIFORNIA LIFE AND HEALTH INSURANCE GUARANTEE ASSOCIATION

(hereinafter also referred to as the Association) at the primary location of its books and records, 8383 Wilshire Boulevard, Suite 815, Beverly Hills, California 90211.

SCOPE OF EXAMINATION

The previous examination of the Association was made as of June 30, 2001. This examination covers the period from July 1, 2001 through June 30, 2005. The examination included a review of the Association's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of June 30, 2005, as deemed necessary under the circumstances.

The examination was limited to a review of the Association's reserves for obligations to policyholders of impaired and/or insolvent insurers and administrative expenses estimated at $184 million. The Association relies on estimates provided by the state insurance liquidators and verified by the National Organization of Life and Health Insurance Guaranty Association's (NOLGHA) Task forces, who rely on the work of retained actuaries and consultants. The underlying policyholder records are maintained by the various state insurance liquidators.

In addition to those items specifically commented upon in this report, other phases of the Association's operations were reviewed including the following areas that require no further comment: organizational records; and employee's welfare and pension plans.

ASSOCIATION HISTORY

On February 10, 1994, the Association was organized by the California State Legislature by merging the Robbins-Seastrand Health Insurance Guaranty Association (CHIGA) into the California Life Insurance Guaranty Association (CLIGA), which retains the rights, property and obligations of the predecessor association.

The Association was organized pursuant to, and operates in accordance with, Division 1, Part 2, Article 14.7, Section 1067 of the California Insurance Code. In addition, the Association operates under a Plan of Operation approved by the California Department of Insurance. The purpose of the Association is to provide insolvency insurance for each member insurer and to protect the policyholders against loss arising from the failure of an insolvent member insurer and discharge its obligations under its insurance policies. All companies holding life, annuity and health insurance certificates of authority in California are automatically members of the Association.

MANAGEMENT AND CONTROL

The Board of Directors (Board), composed of representatives from twelve insurers, manages the Association. The directors are elected in three classes with staggered terms with four directors to be elected for a term of one year, four directors to serve for a term of two years and four directors for a term of three years. The Association notifies the Commissioner and requests written approval of the members of the Board as elected. In approving members of the Board, the Commissioner considers, among other things, whether all member insurers are fairly represented.

As of June 30, 2005, approximately 890 life and health insurance companies were subject to the California Life and Health Insurance Guarantee Association (CLHIGA) Act and were therefore Members of the Association.

The Plan of Operations, as amended on October 12, 2004, specifies that the number of the board of directors shall be twelve insurers. California Insurance Code Section 1067.06 states that the number of directors shall consist of not less than nine nor more than 13 member insurers. From the inception of the Association there has been 12 member insurers.

Board of Directors

Name	Principal Business Affiliation
Mark J. Backe	Northwestern Mutual Life Insurance Company
Eric C. Dupont	Metropolitan Life Insurance Company
William B. Fisher	Massachusetts Mutual Life Insurance Company
Gary K. Hoffman	Kansas City Life Insurance Company
Diana M. Marchesi	Transamerica Occidental Life Insurance Company
Michael T. McLaughlin	Pacific Life Insurance Company
Donna T. Mundy	Unum Provident Corporation
Stephen E. Rahn	Lincoln National Life Insurance Company
Karl Snover	West Coast Life Insurance Company
Todd R. Thakar	Prudential Insurance Company of America
Ernest J. Wright	The Travelers Insurance Company
Currently unfilled *	Golden State Mutual Life Insurance Company

* Note that as of the date of this examination, and currently, member Golden State Mutual Life Insurance Company has not filled its seat on the board of directors. Previously, Verdun J. Arnaud represented them on the board.

Principal Officers

Name	Title
Michael T. McLaughlin	Chairman
Todd R. Thakar	Vice Chairman
Stephen E. Rahn	Secretary - Treasurer

Professional Service Agreement

On August 1, 1998, the Association entered into a Professional Service Agreement with Guarantee Association Administration, LLC (the Administrator), a Delaware Limited Liability Company, to manage the affairs of the Association. Peter C. Leonard of Association Administration, LLC is the current Executive Director.

The Administrator performs all duties as delegated by the Association's Board of Directors. Duties that are specified in the agreement include: maintain office, handle communications, record keeping, filing, storage, assessments, administration of claims, communication with National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), attend NOLHGA task force meetings, monitor insolvencies, communicate with the Board, maintain the needed systems and employees to handle all affairs of the Association as an independent contractor. The Association pays monthly fees of $26,950 for services rendered by the Administrator. The Association pays for the business insurance coverage's currently in effect, and would pay for a fidelity bond, although one is no longer carried. All other charges are to be approved by the Board. The rental costs are anticipated and included in the monthly fee previously noted. The Association itself has no employees. Personnel servicing the Association are provided by the Administrator.

Legal Retainer Agreement

On May 16, 2001, the Association entered into an agreement with James Jackson, Esq. for continuation of representation of the Association in its participation in NOLHGA.

Lease Agreement

The Administrator in 1998 assumed (sub-leased) the ten-year lease agreement entered into during 1994 by the Association. The lease expired on July 31, 2004. The Association is no longer a party to a lease or sublease relating to its business offices. The Administrator entered into a new lease, effective August 1, 2004, and includes occupancy costs in the aforementioned monthly fee charged to the Association.

Third Party Administrators

The Association is party to agreements signed by NOLHGA with various administrators to administer claims and collect premiums of life health and annuity contracts for liquidations assigned to the Association. The third party administrators used by the Association as of June 30, 2005, follows:

Third Party Administrator	Line of Business	Insurance Company
R. N. Swanson	Health	Consumers United Insurance Company
Philadelphia American Life Insurance Company (PALIC)	Annuity	London Pacific Life & Annuity Company
Pennsylvania Department of Insurance	Health	Reliance Insurance Company
R. N. Swanson	Life	Supreme Life Insurance Company of America

The PALIC service contract is administering the “stay-back” annuity contracts for the London Pacific Life & Annuity Company contract holders. Other than an early termination for a material breach, the above agreements are effective until final disposition of all covered claims or it may be terminated by request of a participating guaranty association through NOLHGA.

Business Insurance Coverage

The Association carries business insurance including coverage for commercial excess and umbrella, commercial automobile liability and property. However, the Association currently does not carry fidelity insurance coverage. It was noted that the Association reviewed available fidelity coverage's and, after due consideration by the board, it was determined that such coverage would not be acquired due to the cost and coverage limit considerations.

TERRITORY AND PLAN OF OPERATION

Insurance companies writing life and health insurance business in California (with exception of companies specifically exempted pursuant to California Insurance Code Section (CICS) 1067.04(i)(1 through 8) are required to participate in the California Life and Health Insurance Guarantee Association. If an admitted life and health insurance company becomes insolvent, the Association administers covered policyholder claims and assesses each life and health insurance company up to 1% of written premium in the appropriate line of business. CICS 1067.08 requires member insurers to surcharge policies to recover health insurance account assessments.

The Association has the responsibility to pay and discharge covered claims of member insurers as of the date a court of competent jurisdiction declares such member insurer insolvent and a liquidator is appointed. Covered claims primarily include the policy obligations of insolvent insurers arising from life, health, annuity, and supplemental policies and contracts coverage (exclusive of those lines not included per CICS 1067.02).

The Association allocates its claim payments and costs, incurred or estimated to be incurred, to one or more of the following categories: (a) life claims; (b) annuity contracts, and (c) health claims.

Separate premium charges (assessments) are required for each category. The assessments for each category are used to pay the claims and costs allocated to that category.

CICS 1067.02 establishes that the benefits for covered life and annuity claims are limited to the lesser of: (1) eighty percent of the contractual obligations for each policy or contract; or (2) $100,000 of the present value of an annuity contract, $100,000 of cash surrender value of a life insurance policy, or $250,000 in life insurance death benefits. Coverage is determined after adjusting the covered policy or contracts interest crediting rates so that the rates credited by the insolvent insurer does not exceed a rate of interest determined by subtracting six (6) percentage points from Moody's Corporate Bond Yield, not to go below a minimum of three percent (3%). Maximum health insurance coverage is limited to $200,000, subject to an adjustment based upon changes in the health care cost component of the Consumer Price Index.

The control of its assets transfers to the state insurance liquidator in its domiciliary state when a life and health insurance company becomes insolvent. The liquidator uses the assets of the insolvent insurance company to settle the outstanding liabilities of the company. Liquidators may advance funds to the Association prior to settlement of the insolvent estate’s outstanding debts. The Association recognizes these advances as revenue when received. The advances are utilized to discharge claims against the insolvent insurance companies. The respective liquidator can recall these advances, in whole or in part. The Association recognizes any recall of advances when notified by the liquidator or receiver.

To the extent that assets, including advances from liquidators, are insufficient to discharge the Association’s obligations, the Association assesses member insurers when determined necessary by the Board. Conversely, to the extent that the assets exceed the ultimate cost of claim obligations for insolvent insurers, the excess fund balance, if any, will be refunded or applied to reduce future assessments by the Association in the appropriate category.

Assessments are accrued as of the date declared by the board and become due from the member insurers no less than thirty days after assessed. The rate of assessment to each member insurer is initially based on the average written premium for the three years preceding the insolvency, as shown on the annual financial statements filed with the California Insurance Commissioner.

As of June 30, 2005, the Association continues to satisfy its statutory obligations to contract-holders for 29 insolvencies both active and inactive. For the year ended June 30, 2005, the Association paid out approximately $89.9 million in direct benefits, 99.9% of which were for annuities of the London Pacific Life & Annuity Company (London Pacific) insolvency. During the same annual period, the Association paid approximately $76.5 million for benefits through assumption reinsurance. 80.6% of the aforementioned assumption reinsurance payments related to the London Pacific insolvency, and the remaining 19.4% was related to the Executive Life Insurance Company insolvency.

REINSURANCE

Traditional reinsurance, entered into by member insurers prior to their insolvencies, is administered by the liquidator of the insolvent member insurer and is therefore excluded from the Association's financial statements. Reinsurance recoveries made by the liquidator may be advanced to the Association subject to the priority needs of the estate in liquidation. Ancillary liquidations may also have a demand on assets recoverable, including reinsurance recoverables and special and statutory deposits.

ACCOUNTS AND RECORDS

During the period covered by this examination the Association prepared a contingency plan for disaster recovery. The Association staff indicated that the contingency plan will be reviewed on a regular interval and updated as needed.

INVOLVEMENT WITH INSOLVENT INSURERS

From its inception, the Association has become responsible for the payment of benefits to California resident policyholders and contractholders for 29 insolvent insurance companies:

Insolvency	Year Activated
Executive Life Insurance Company	1991
Inter-American Insurance Company of Illinois	1991
Legacy Life Insurance Company	1991
Midwest Life Insurance Company	1991
Mutual Security Life Insurance Company	1991
Fidelity Bankers Life Insurance Company	1992
American Integrity Insurance Company	1993
Investment Life Insurance Company of America	1993
Mutual Benefit Life Insurance Company	1993
New Jersey Life Insurance Company	1993
Confederation Life Insurance Company (U.S.)	1994
Consumers United Insurance Company	1994
Kentucky Central Life Insurance Company	1994
Old Colony Life Insurance Company	1994
Summit National Life Insurance Company	1994
National American Life Insurance Company of PA	1995
Supreme Life Insurance Company of America	1995
American Western Life Insurance Company	1997
Centennial Life Insurance Company	1998
Universe Life Insurance Company	1998
First National Life Insurance Company of America	1999
International Financial Services Life Insurance Company	1999
Statesman National Life Insurance Company	1999

American Chambers Life Insurance Company	2000
Combined Benefits Insurance Company	2000
Reliance Insurance Company	2001
Legion Insurance Company	2003
Villanova Insurance Company	2003
Insolvency	Year Activated
London Pacific Life & Annuity Company	2004

The Association monitors the progress of other member insurance companies presently in conservation and rehabilitation where the Association may, at some time in the future, incur liability for benefit payments to California resident policyholders and contractholders.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Balance Sheet as of June 30, 2005

Statement of Activities for the Year Ended June 30, 2005

Statement of Changes in Members Net Asset (Deficit) for the Years Ended June 30, 2005 and June 30, 2004

Statement of Cash Flows for the Year Ended June 30, 2005

Balance Sheet as of June 30, 2005

Assets	June 30, 2005 Per Examination	Notes
Investments:		
Cash and cash equivalents	$ 51,794,301	(1)
Total investments	51,794,301	
Assessments receivable:		
Called, net of allowance for uncollectable balances of $6,769,025	11,316,362	(2)
Declared but not yet called	67,352,323	(2)
Total assessment receivable	78,668,685	
Accrued investment income	37,156	
Other assets	30,273	
Total assets	$ 130,530,415	

Liabilities and Members' Net Assets (Deficit)		
Reserves for Obligations to policyholders of impaired and/or insolvent insurers and administrative expenses	$ 184,092,000	(3)
Reserve for excess early access distribution from liquidators	470,038	
Assessment refunds due to members	688,314	
Other liabilities	931,314	
Total liabilities	186,181,666	
Members net deficit	(55,651,251)	(7)
Total liabilities and members deficit	$ 130,530,415	

Statement of Activities
for the Year Ended June 30, 2005

Revenues:		
Assessments declared	$ 15,222,500	(2)
Assessment refunded	(4,250,000)	(2)
Premiums, investment gains	7,728	
Early access distributions from liquidators	151,009,595	(4)
Net investment income	1,366,280	
Total revenues	163,356,103	
Expenses:		
Benefits incurred:		
Benefits paid	89,888,438	(6)
Assumption reinsurance payments, net	76,538,489	(5)
Change in reserves for obligations to policyholders of impaired and/or insolvent insurers and administrative expenses	769,000	
Total benefits incurred	$ 167,195,927	
Legal and professional	119,879	
Accounting and auditing	35,260	
NOLHGA dues and assessments	1,713,802	
Travel	21,231	
Uncollectable member assessments	467,343	
General and administrative	26,502	
Professional services contract	323,400	
Total expenses including benefits incurred	169,903,344	
Change in members' net deficit	$ (6,547,241)	

Statement of Changes in Members' Net Asset (Deficit) for the Years Ended June 30, 2005 and June 30, 2004

	Total Members' Net Assets (Deficit)
Members' Net Deficit, June 30, 2003	$ (39,017,719)
Changes in members' net assets	(10,086,291)
Total comprehensive loss	(10,086,291)
Balance, June 30, 2004	(49,104,010)
Change in members' net assets	(6,547,241)
Total comprehensive loss	(6,547,241)
Members' Net Deficit, June 30, 2005	$ (55,651,251)

Statement of Cash Flows
for the Year Ended June 30, 2005

Assets

Cash flows from operating activities:	
Cash received from member company assessments	$ 29,301,160
Cash assessment refunds paid to member companies	(331,975)
Cash received from policy premiums	7,728
Cash received from early access distributions	10,685,983
Interest received	1,340,583
Cash paid for policyholder obligations	(26,103,315)
Cash paid for consultants and suppliers	(1,765,158)
Net cash provided by operating activities	13,135,006
Net increase in cash and cash equivalents	13,135,006
Cash and cash equivalents at beginning of year	38,659,295
Cash and cash equivalents at end of year	$ 51,794,301
Reconciliation of members' net assets (deficit) to net cash used In operating activities:	
(Increase) decrease in members' net assets (deficit)	(6,547,241)
(Increase) decrease in:	
Assessments receivable	18,777,145
Accrued investment income	(25,697)
Increase (decrease) in:	
Reserves for obligations to policyholders of impaired and/or insolvent insurers and administrative expenses	769,000
Other assets and liabilities	474,885
Assessment refunds due to members	(313,086)
Net cash provided by (used in) operating activities	$13,135,006
Non cash:	
Assessment refunds applied to assessments receivable	$408,309
Early access distributions paid directly by the estate to satisfy the Associations' policyholder obligations	140,323,612

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Cash Equivalents

The Association's investment policy is to limit its portfolio to investment in U.S. government, and U.S. government agencies instruments with maturities not to exceed 90 days. The Association maintains its cash in a federally insured banking institution and the account balances at June 30, 2005 exceed the Federal Deposit Insurance Corporation's (FDIC) coverage by $4,957,464. Management of the Association believes that this credit risk is not significant.

(2) Assessments Receivable

There are two classes of assessments to member companies. Class A assessments are made for the purpose of meeting general and administrative expenses of the Association. Class B assessments are necessary to discharge the duties of the Association to California resident policyholders due to a particular insolvency. Class B assessments are shared by member companies in the proportion to average premiums written in California for each line of business (life, annuity and health) for the past three years prior to the year of liquidation. The assessment to each member may not exceed 1% of the members' three-year average premiums. To the extent the assessment exceeds the cost of an insolvency the assessment is refunded to the members.

Assessments receivable: Called, net of allowance for uncollectable balances, was $11,316,362 which was comprised primarily of the Executive Life Insurance Company (Executive Life) call discussed below.

Assessments receivable: The total declared but not yet called, of $67,352,323, was comprised of $943,800 for Kentucky Central Life Insurance Company and the remaining $66,408,523 was for Executive Life.

During the year ending June 30, 2005, the Association declared $225,000 of Class-A (administrative) assessments, and $15,000,000 of Class B assessments (related to the London Pacific insolvency). During this same period, the Association ordered and directed a call on previously declared Executive Life (Class B) assessments in the amount of $14,874,048.

Assessments are recorded when declared by the Association. The Association will call the declared assessment, as needed, at which time it is payable by member companies. The assessments called and not collected by the Association are booked net of an allowance for uncollectable assessments from insolvent companies.

During the year ended June 30, 2005, the Association declared Class B refunds of previously declared assessments related to the following insolvent insurers:

Insurers	2005
American Western Life Insurance Company	$ 600,000
Centennial Life Insurance Company	250,000
Consumers United Insurance Company	500,000
First National Life Insurance Company of America	900,000
National American Life Insurance Company of PA	2,000,000
Total	$ 4,250,000

(3) Reserves for Obligations to Policyholders of Impaired and/or Insolvent Insurers and Administrative Expenses

The carried reserves are based on estimates provided by the state insurance liquidators and verified by the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) task forces (who rely on the work of retained actuaries and consultants) on behalf of various state guaranty associations. The reserves are actuarial estimates based on underlying data maintained by various state insurance liquidators, reinsurers, or third parties. This information is not always available or reliable for an accurate estimate for future obligations. For these reasons it is not practical for the examiner to extend procedures sufficiently to validate the data (nor is it cost effective to have additional actuarial studies performed pursuant to the examination to determine reserve accuracy). Therefore, the examination was limited-in-scope as regards to the procedures used to verify the Association's reserves for obligations to policyholders of impaired and or insolvent insurers and administrative expenses, estimated at $184 million. The examiner relied on estimates, without testing, as provided by the state insurance liquidators and as verified by NOLGHA's task forces.

The Executive Life reserve is estimated at $174 million or approximately 94.5% of the total reserves for policyholder obligations recognized by the Association, and is based on an enhancement agreement with Aurora National Life Insurance Company (Aurora). Pursuant to the enhancement agreement, Aurora acquired certain contracts from Executive Life and, in return, most state guaranty associations, including the Association, make contributions to fund their obligations under the enhancement agreement. The enhancement agreement's contractual terms and the Association's other obligations related to the Executive Life insolvency, require estimated payments over the remaining terms of the underlying contracts of approximately $15 million per year.

The London Pacific Life & Annuity Company (London Pacific) reserve at $9.8 million, or approximately 5.3% of the total CLHIGA reserves for policyholder obligations, is principally related to "stay-back" contractholder obligations the Association incurred under an October 2004 London Pacific Liquidation Plan (Plan). The Plan provided contractholders with three choices: (1) exchange their London Pacific contract with Hartford Life Insurance Company (Hartford Life) for a Hartford Life annuity; (2) surrender their contract for its cash surrender value; (3) retain the covered portion of their contract, subject to the Association's statutory limits (the "stay-back" contracts), and receive a payment from the London Pacific estate for a percentage of the uncovered portion.

The obligation to Hartford Life (formalized by a May 2004 Exchange Agreement) for those London Pacific contractholders electing to exchange their contracts and the obligations to those London Pacific contractholders electing to surrender their contracts, were satisfied by the Association during the fiscal year ended June 30, 2005.

The Association entered into a service contract with Philadelphia American Life Insurance Company in September 2004 to administer the aforementioned stay-back annuity contracts. Under this claims administrative service contract, the Association continues to have an obligation to fund the payments on the stay-back contracts.

(4) Early Access Distributions from Liquidators

During the fiscal year ending June 30, 2005, the Association received either directly or indirectly $151,009,595 of distributions from the estates of insolvent insurers in liquidation. The distributions were principally received from the London Pacific estate and were applied to fund the Hartford Life exchanges, surrenders, and the stay-back agreements discussed in item (3) above.

(5) Assumption Reinsurance Payments

For the year ended June 30, 2005, the Association paid assumption reinsurance in the amount of $76,538,489 for the following insolvent insurers:

Executive Life Insurance Company – Life	$ 5,414,066
Executive Life Insurance Company – Annuity	9,459,982
London Pacific Life & Annuity Company – Annuity	61,664,441
Total	$ 76,538,489

(6) Benefits Paid

For the fiscal year ended June 30, 2005, the Association paid out approximately $89.9 million of benefits, 99.9% of which were for annuities of the London Pacific insolvency.

(7) Members' Net Deficit

The deficit is the result of the assets of the Association being less than the liabilities reflected on the Association's balance sheet as of June 30, 2005. The balance sheet for the Association as of June 30, 2005, does not reflect the capacity for collection of undeclared assessments, granted to the Association, pursuant to California Insurance Code Section (CICS) 1067.08(a), but does reflect all liabilities of the Association.

CICS 1067.08(a) states that for the purposes of providing the funds necessary to carry out the powers and duties of the Association, the board of directors shall assess the member insurers at such time and for such amount as the board finds necessary. CICS 1067.08(c)(3) states that assessments for funds to meet the requirements of the Association with respect to an impairment of an insolvent insurer shall not be made until necessary.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Business Insurance Coverage (Page 6): With concurrence of the Board, the Association does not currently carry fidelity insurance coverage due to cost and coverage limit considerations.

Previous Report of Examination

Accounts and Records (Page 8): The Association's securities custodial agreement did not meet the requirements of the California Department of Insurance for insurance companies. On February 24, 2003, Association, and Union Bank of California (the custodian) executed a new custodial agreement meeting the aforementioned requirements.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Association's officers and by the employees engaged by the Administrator during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_________________
Gary McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California